



9 December 2024

Dear Regulatory Finance team,

We welcome the opportunity to respond to Ofgem's call for input on the energy networks ring fence review. Citizens Advice is responding as the statutory consumer advocate for energy consumers in Great Britain.

We agree that it is timely that Ofgem should be reviewing the ring fence arrangements for network companies, including both incumbent network companies and independent networks. The failures we saw in the energy retail sector, including from insufficiently capitalised companies, ultimately imposed costs of £billions on consumers.

We are aware that the ownership structures of network companies are becoming increasingly complex which can introduce risks for consumers without suitable protections. Challenges in the water sector also highlight the importance of Ofgem taking all reasonable actions to mitigate any similar risks in the energy networks sector.

Competition among energy networks can play an important role in the net zero transition to ensure that network infrastructure is providing optimum value for money for consumers. For example, early competition in the electricity transmission sector is expected shortly, and independent electricity distribution networks and independent gas transporters are already providing services to millions of customers. With the potential for more new entrants to this market with different operational and financing structures, this further reinforces the importance of Ofgem conducting a review.

Patron HRH The Princess Royal Chief Executive Dame Clare Moriarty

Citizens Advice is an operating name of the National Association of Citizens Advice Bureaux.

Charity registration number 279057. VAT number 726 0202 76. Company limited by guarantee. Registered number 01436945.

England registered office: 3rd Floor, 1 Easton Street, London, WC1X0DW.

It is essential and a reasonable expectation on behalf of energy consumers that there is clear visibility and transparency of the ownership, corporate governance arrangements, transactions, and decision making that directly and indirectly impacts energy network companies.

This ensures that consumers, who ultimately pay for the costs of network infrastructure, their operation and maintenance, and provide returns to shareholders, can understand where their money is going. It also ensures Ofgem can understand and assess any risks, or potential risks, that may arise. This should include processes which provide the necessary confidence to Ofgem, and for consumers, of how special administration processes and intervention plans would be deployed should the need ever arise.

We believe that robust ring fence arrangements can make energy network companies resilient to both their own corporate finance structures as well as wider economic environments. In turn, this should ultimately improve their credit ratings. This should enable companies to access lower borrowing costs and make network companies an even more attractive investment opportunity than the status they already enjoy.

We are concerned that Ofgem's initial work has already identified a range of weaknesses in the ring fence namely due to the level of detail and clarity in conditions, inconsistencies between sectors, and the number of exemptions that exist which do not appear to be consistent with the intent of the ring fence condition at a high level.

It is essential that Ofgem's work ensures that the intent of the ring fence condition at a high level is backed up in the detail of the licence and guidance, that they are suitably exhaustive, and that there is consistency.

We recognise that there may be some risks that costs for networks may increase through robust ring fencing. However, an improved investment grade credit rating should also lead to cheaper borrowing costs which we believe could mitigate this and potentially provide savings to consumers. Overall, we anticipate robust ring fence arrangements as being positive for both network companies and consumers.

Ultimately, Ofgem should aim to ensure that the ring fence conditions provide suitable protection to consumers to ensure that the commercial actions of network companies and their corporate structures are not misaligned to the interests of the energy consumers whose investment they manage.

Responses to Ofgem's questions

1. Have we identified the issues and challenges network companies are facing accurately? (Yes/No)

Yes, we agree that the risk areas observed are accurate and are issues which mean it is appropriate for Ofgem to take action.

2. Are there any other issues that may pose a threat to the regulatory ring fence that we should consider?

No answer.

3. Are there any weaknesses within the current ring fence conditions that we should consider?

We agree that Ofgem should address the issues identified in the RIIO-3 Sector Specific Methodology.

Citizens Advice is also supportive that Ofgem seeks to address the strength of dividend lock-up, clarity of restrictions on disposals, inconsistencies across sectors, and obligations which may be open to interpretation.

4. Which would be your preferred option of the three outlined and why?

No response.

5. What are your views on the three options outlined and the associated benefits and risks of each?

We agree with Ofgem that if initial assessments indicate that there is the potential for consumer harm or that ring fence arrangements are unlikely to be adequate then 'doing nothing' is not an option.

We believe a combination of the other two options is necessary and would be in consumers interests. Ensuring network companies have sufficient financial safeguards to minimise and manage the risks of financial distress is fundamentally important given the risk they pose to consumers if arrangements are not suitable. We therefore think Ofgem should not impose any restrictions or limitations on the potential options and actions it may take.

Patron HRH The Princess Royal **Chief Executive Dame Clare Moriarty**

Citizens Advice is an operating name of the National Association of Citizens Advice Bureaux.

Charity registration number 279057. VAT number 726 0202 76. Company limited by guarantee. Registered number 01436945.

England registered office: 3rd Floor, 1 Easton Street, London, WC1X0DW.

Ofgem should undertake a detailed review of existing arrangements and make improvements to ensure that the ring fence arrangements are robust and that the detail meets the intent. Ofgem should also consider other measures beyond the existing arrangements to explore what further additions would meet Ofgem's aims in ensuring ring fence arrangements are suitably robust to protect energy consumers. This may include looking at arrangements in other similar UK sectors and beyond if further potential improvements can be identified.

As noted above, as well as being in consumers' interests, better ring fencing for network companies should also be in the companies' interests as this should act to improve their investment grade credit rating and make them an even safer investment. We therefore believe that Ofgem's approach to this issue should not be limited due to the benefits for network companies as well.

Ofgem has listed a number of additional requirements it could consider. We support Ofgem exploring all of these and others that may be identified in a detailed review

6. Tell us if you have suggestions on how we can improve our proposed options.

As noted above, the importance of suitable ring fence arrangements means Ofgem should not constrain its approach to this issue. We believe the consumer interest in this issue is sufficient that any concerns that may be expressed around regulatory burden should not restrict Ofgem's approach.

7. Tell us about any alternate options we should consider.

No answer

Yours sincerely

Sam Hughes

Interim Principal Economic Regulation Specialist

Patron HRH The Princess Royal Chief Executive Dame Clare Moriarty

Citizens Advice is an operating name of the National Association of Citizens Advice Bureaux.

Charity registration number 279057. VAT number 726 0202 76. Company limited by guarantee. Registered number 01436945.

England registered office: 3rd Floor, 1 Easton Street, London, WC1X0DW.